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ABSTRACT

The outcome of the federal budget process in 1986, the impact of tax reform, and reauthorization of the Higher Education Act are examined, along with prospects for the 1987 U.S. Congress. State legislative developments and recent policy studies sponsored by the College Board's Washington office are also reviewed. Statistical tables trace funding for student financial aid since 1980-1981 in both current and constant dollars, the latter adjusted for inflation to show changes over time in the purchasing power of assistance. This year student aid is affected by changes in both the tax law and the Higher Education Act, along with continued uncertainty over federal funding commitments. Education received an overall 7.2% increase for fiscal year 1987 due to a Senate amendment that restored education funds cut by an earlier measure and that provided a modest inflation increase. Ways that the Tax Reform Act of 1986 affect educational institutions and students and parents in saving and paying for higher education are identified. (SW)

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update FROM WASHINGTON JANUARY 1987

A REPORT FROM THE WASHINGTON OFFICE OF THE COLLEGE BOARD

ED277326

This report reaches you just as the 100th Congress convenes and the President submits his budget proposals for fiscal year 1988. The President's plan--likely to call once again for deep cuts in domestic spending, continuation of the defense build-up, and no tax increase--will set the stage for another protracted struggle over the federal deficit and national priorities.

This report reviews the outcome of the budget process in 1986, the impact of tax reform, and the reauthorization of the Higher Education Act, then looks ahead to prospects in the new Congress. We also review state legislative developments of concern to the College Board and recent policy studies sponsored by the Washington Office. The tables on page 8 trace funding for student financial aid since 1980-81 in both current and constant dollars, the latter adjusted for inflation to show changes over time in the purchasing power of assistance. The data are from our Trends in Student Aid series and include previously unpublished estimates for 1986-87.

Changes in both the tax law and the Higher Education Act, along with continued uncertainty over federal funding commitments, have injected a new measure of confusion into student aid procedures this year. As in the early 1980s, this is a time when it will be especially important to reassure the public that help is available to plan for and finance a college education. We hope the following report offers useful information and perspective.

Lawrence E. Gladieux
Executive Director

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The Budget Battle: 1986

"... one could assume that the eulogy and benediction have been given to Gramm-Rudman. We haven't done the committal yet."

Representative William H. Gray III (D-PA)
Chairman, House Budget Committee

Last January we asked, "Is there life after Gramm-Rudman-Hollings?" The potential for massive cutbacks in federal spending never materialized in 1986, nor did a tax increase. Congress and the Administration muddled through, technically meeting deficit reduction requirements on paper while postponing major confrontation of the federal fiscal dilemma.

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"Expect chaos," Representative Gray warned a year ago. Indeed, the 1986 budget process hardly mirrored the flow charts for legislation found in textbooks. At times there were four separate budget processes occurring simultaneously in different arenas, each with its own set of players: the "reconciliation" cuts for the fiscal year (FY) 1986 budget, Gramm-Rudman-Hollings "sequestration" procedures for FY 1986, the regular budget process for FY 1987, and the Gramm-Rudman-Hollings procedures for FY 1987 (see accompanying glossary of budget terms). Thus the unprecedented deficit control legislation, named for its three Senate cosponsors, injected a new set of dynamics into an already complicated, multi-layered budget process.

There are several important stories to tell about last year.

From the perspective of education, the 1986 budget deliberations produced significant gains. Despite the atmosphere of austerity, education funding received an overall 7.2 percent increase for FY 1987; the chart on the next page indicates specific increases in higher education programs. This victory was achieved early on, during the Senate's consideration of its Budget Resolution, when Senators Mark Andrews (R-ND) and Ernest Hollings (D-SC) successfully offered a $1.2 billion amendment that essentially restored education funds cut by an earlier (FY 1986) sequestration measure and provided a modest inflation increase. These gains were sustained throughout the budget

Budget Glossary

Budget Resolution-Legislation passed by both houses of Congress that establishes binding figures for each budget function, as well as spending levels, revenues, and annual deficit or surplus. The President's signature is not required.

Appropriations-An act of Congress that allows federal agencies to incur obligations and make payments out of the Treasury for specified purposes, usually following enactment of an authorization bill.

Reconciliation-A process used by the Congress to bring tax and spending levels for a given fiscal year into agreement with ceilings set in the Budget Resolution.

Sequestration-The process created by the Balanced Budget and Emergency Deficit Control Act (Gramm-Rudman-Hollings) to cut spending automatically if the Congress and the President do not enact laws during the year to reduce the deficit to that fiscal year's target level.

Continuing Resolution-Legislation providing spending authority for federal agencies to continue in operation until regular appropriations are enacted. The bill specifies a maximum rate at which obligations may be incurred based on the prior year's rate, the President's budget, or an appropriations bill not yet enacted into law.

debate and incorporated in the final FY 1987 appropriations legislation. There was strong sentiment that education programs should be protected after five years of eroding support, and many in Congress justified the additional funds as a national investment.

	FY 1986 Appropriations	FY 1987 Appropriations
	(dollars in millions)	
Pell Grants	$3,578*	$3,900**
Supplemental Educational Opportunity Grants (SEOG)	395	413
College Work-Study (CWS)	567	592
National Direct Student Loan (NDSL)	209	215
State Student Incentive Grants (SSIG)	73	76
Byrd Merit Scholarships	0	8
Aid for Institutional Development (Title III)	135	146
TRIO	169	176
International Education	31	32
Fund for the Improvement of Postsecondary Education	12	14

*Includes $146 million for Pell shortfall
**Includes $100 million for Pell shortfall

The increasing confusion and delay surrounding the new budget process, the gradual unravelling of Gramm-Rudman-Hollings, and its failed expectations are other important outgrowths of 1986.

There was disagreement from the outset between Congress and the President on both spending priorities and taxes, with the President continuing his adamant opposition to any tax increase and congressional leaders, after including taxes in early budget drafts, following Mr. Reagan's lead. Yet they faced the necessity of keeping deficit estimates below the $154 billion Gramm-Rudman-Hollings target. Debate quickly evolved into deadlock.

In this atmosphere, Gramm-Rudman-Hollings began to come apart. Congress "did not kill the legislation outright," one observer noted, but "delivered death in small bites." Both houses of Congress missed or granted exceptions to deadlines imposed by the law, and the Supreme Court ruled certain of its provisions unconstitutional.

In the end Congress and the Administration manipulated the budget parameters, employing a variety of techniques to keep deficit <u>estimates</u> below the $154 billion target mandated in the law for FY 1987: delaying or speeding up payments under certain programs to keep the spending out of FY 1987, using optimistic economic forecasts, or initially appropriating too little for key programs that would later require supplemental funds to keep them going. So-called "golden gimmicks" and one-time savings, like government asset sales and the application of an $11 billion windfall from tax reform legislation,

also contributed to the appearance of reducing the deficit and averted the necessity of automatic spending cuts.

The budget process was strained more than ever before. In 1986 the Congress did not send one of the 13 regular appropriations bills to the President for his signature. Instead, all appropriations were lumped into a gigantic "continuing resolution," which despite its size ($576 billion) provided the smallest percentage increase in government spending in twenty years. This method gave legislators a procedural advantage over the approval of appropriations bills for specific government agencies. Such an all-inclusive measure was considered "veto-proof." In signing the bill into law, the President swallowed many unpalatable items in order to get funding for those things the Administration supported.

Passage of the catch-all appropriations measure was harrowing. Debate on it took up much of September and October, contributing to a two-week delay in final adjournment and the appearance of buttons urging "Free the 99th Congress." Fiscal year 1987 started on October 1 with no agreement, and Congress passed four temporary continuing resolutions to keep the government running. At one point, a 23-hour filibuster over funding for a military training jet blocked passage of the final resolution and led to a shutdown of the government, the third one of the Reagan presidency. "Non-essential" government employees were sent home; 34 Department of Education employees, less than one percent of the staff, were deemed essential and stayed on the job.

What does last year's budget fiasco portend for this year? Many are skeptical that the Congress and the President can improve on their performance. Frustration has grown with missed deadlines, year-long stalemate on key budget issues, all-night sessions, and the inability to reduce the deficit significantly. The President plans to make reform of the process a major theme for 1987 (his ideas: a line-item veto, a two-year budget cycle, and the adoption of a two-part budget, capital and operations, much like the business world). Whatever procedural tinkering may be considered or even adopted, one of the lessons of budget reform, both 1970s and 80s style, is that the process relies on political will to function. Without discipline from the President, to propose reasonable budgets, and the Congress, to meet deadlines and make hard choices, no reform will solve deficit problems. The nation again will face the "late night government" we saw in 1986.

Tax Reform

> "The Tax Reform Act of 1986... is the most sweeping tax reform legislation in the history of this nation... If we approve it, the 99th Congress will assume a special place in history."
>
> Retiring House Speaker Thomas P. O'Neill, Jr. (D-MA)

The Tax Reform Act of 1986 will have enormous consequences for individuals, institutions and the economy as a whole. The task of interpreting and assessing the impact of this large, complex law (925 pages long) has only begun.

The new law includes broad shifts in deductions, exclusions, and tax rates phased in over the next five years. It is intended to be "revenue neutral,"

with funds gained from the elimination of tax preferences offsetting estimated losses from the lower rates and the higher standard deduction/personal exemption. Analysts worry about the net effect on industrial investment and savings (does the bill diminish incentives?); economic growth (will higher corporate taxes slow the economy, or will increased consumer spending and greater investment efficiency spur a boom?); and the deficit. Computers throughout the country are churning out data that may or may not settle these issues and will most certainly raise others.

Some of the law's new provisions have direct implications for educational institutions. These include:

- Gifts of appreciated property, accounting for 40 percent of all giving at private colleges and universities, will be subject to the minimum tax.

- The tax deduction for charitable gifts by non-itemizers is terminated, thus affecting giving to all nonprofit institutions. According to Professor Charles Clotfelter of Duke University, tax reform will reduce giving to colleges and universities by 25 to 30 percent in 1988 from the level that could otherwise be anticipated.

- Rules for tax-exempt financing are changed, potentially affecting both educational facilities construction and bond financing of student loans.

- The federal deduction for state and local sales taxes is eliminated. Since many states rely on these taxes to finance education, this could affect public elementary, secondary and higher education. States are already beginning to plan for tax overhaul in light of this as well as other provisions in the law.

Changes will affect students and parents in saving and paying for higher education. For example:

- The elimination of tax-deductible Clifford Trusts and changes in taxation of income transferred to children under the age of 14 will curtail the use of these methods as a means of saving for educational purposes. However, a child under 14 is still allowed $1,000 in unearned income taxed at his/her rate rather than the parent's; all of the unearned income of children over 14 will be taxed at the child's rate. Thus, for the great majority of families, a transfer of income remains a viable college savings technique with a tax advantage.

- An individual will not be able to take a personal exemption if eligible to be claimed as a dependent on another taxpayer's return. Under current law children under the age of 19 and full-time students can use this exemption even if they are taken as a dependent by someone else.

- The deduction for consumer interest, including interest on student and parental loans, is phased out between 1987 and 1992. This will occur during the same period that the interest rate and loan limits on Guaranteed Student Loans are increased by the reauthorized Higher Education Act. However, home mortgage interest remains deductible. Taxpayers will be able to deduct interest payments on home equity loans used to meet educational as well as medical expenses.

- Scholarships, fellowships, and federal financial aid grants will be counted as taxable income to the extent these awards, either individually or together, exceed the cost of tuition and related expenses. Both graduate and undergraduate awards are covered. The change will clearly affect married students with spouses earning income, athletes receiving full scholarships, and, paradoxically, some of the neediest students (those with large grants). For many students, however, the increase in the standard deduction will mitigate the impact and leave them with little or no increased liability. The provision will cause an additional administrative burden for institutions, whether it is witholding from aid checks or increased record-keeping.

One major goal of the Tax Reform Act is to limit the use of the tax code as a tool of social and economic policy. Many of the tax preferences designed to affect economic and social behavior are retained while others are excised. The results are uneven and strike many observers as inequitable.

For example, the law ends tax deductions for interest on student loans but grants such a deduction to those using a home equity line of credit to pay educational costs. Taxpayers with a more expensive home or with two homes receive even more favorable treatment. Those taxpayers itemizing their tax returns can still deduct all charitable contributions, while the vast majority who do not itemize lose their deductions. The code retains certain incentives for business investment, but removes the exclusion from income for all scholarship and fellowship funds, an investment in human capital.

Without doubt the battle over tax reform will continue. According to one business leader, "this is not the last tango. There is no such thing when it comes to tax law." The losers in the Tax Reform Act of 1986 already have begun devising strategies for reversing decisions. In 1987, Congress will correct the inevitable errors that are inherent in such a massive bill; in many instances these "technical corrections" could be a guise for more substantive changes. Meanwhile, the Treasury Department must go about writing regulations to interpret the legislation, a job described by one former IRS commissioner as "about equivalent to moving the polar ice caps."

Pressure for deficit reduction will have an impact on tax deliberations. Some key congressional leaders support either delaying rate reductions or recasting the rate structure. Any effort to significantly reduce the deficit may mean another look at the tax code. Stay tuned.

Reauthorization of the Higher Education Act

"It's on the books; now the question is getting the money."

Representative William D. Ford (D-MI)
Past Chairman, House Subcommittee
on Postsecondary Education

Congress has reauthorized the Higher Education Act of 1965, the law governing federal student aid and related programs, through 1991. The Higher Education Amendments of 1986 "fine-tune" the statute in ways that will help redirect federal aid to students most in need and tighten the operation of the programs. The bill adds new twists to some programs (for example, allowing off-campus private sector employment in College Work-Study and opening Pell Grants to

less-than-half-time students in 1989), but it leaves the basic structure of federal assistance intact.

In the aftermath of its enactment, there is much concern with a host of new definitions and rules, some effective last October, others at various points during 1987. For example:

- A new test of financial independence, aimed at distinguishing more accurately between those students who can rely on parental support and those who cannot, becomes effective for Guaranteed Student Loans (GSL) applicants on January 1, 1987 and on July 1, 1987 for all other programs. These new criteria required a revision of all financial aid application forms and delayed their distribution.

- A requirement that GSL applications must be submitted directly to the lender by the borrower has suddenly confounded efforts to streamline loan processing, by electronic and other means, on many campuses.

Adding to uncertainty is the lack of regulatory guidance from the Department of Education for interpreting many of the program changes. Because Congress barred the promulgation of regulations for the 1987-88 award year after December 1, 1986, the Department has resorted to issuing periodic "Dear Colleague" letters to flag important changes and their implications.

Short-term operational difficulties will be absorbed by the student aid system, as always, and we can expect the enactment of technical corrections to the 1986 law in the new year to resolve some of the most obvious problems.

Longer range, what does the reauthorization legislation portend for student financing over the next five years?

One of the most perplexing issues in reauthorization was student indebtedness. Congressional leaders sought to reverse the increasing reliance on loans to finance education (a trend illustrated in the charts on p. 9) and to restore a better balance between grants and loans in aid available to students.

Under the new rules all GSL applicants must first seek an eligibility determination for Pell Grants and then qualify for the loan on the basis of a full need analysis. Further, the law tries to discourage unnecessary borrowing by curbing lender practices that may entice students into debt and by requiring that more information be given to students about their repayment responsibilities. Congress also moderated lender subsidies, reducing the special allowance the government pays to participating banks on new GSLs.

But the drift toward a system that relies primarily on student debt to finance educational costs is not likely to be arrested. While restricting eligibility and incentives in the GSL program, the new law also substantially increases the amounts that qualified students can borrow. The new GSL capacity can be utilized right away, since GSL operates as an entitlement for qualified students.

Thus, while fewer students may be eligible, those who do remain eligible can borrow larger amounts. How, on balance, the reauthorization changes will affect GSL volume is a matter of some speculation; early estimates from states and institutions suggest overall volume may be significantly reduced.

Aid Awarded to Postsecondary Students

(in Millions)

Current Dollars

	Academic Year						
	1980–81	1981–82	1982–83	1983–84	Estimated 1984–85	Estimated 1985–86	Preliminary 1986–87
Federally Supported Programs							
Generally Available Aid							
Pell Grants	2,387	2,299	2,417	2,796	3,049	3,652	3,578
SEOG	366	361	343	361	374	396	379
SSIG	76	77	73	60	76	76	76
CWS	658	624	615	683	645	693	662
NDSL	695	580	598	682	677	751	779
GSL and PLUS	6,201	7,226	6,694	7,578	8,607	8,836	8,200*
Subtotal	10,384	11,168	10,741	12,160	13,428	14,404	13,674
Specially Directed Aid							
Social Security	1,883	1,996	733	220	35	0	0
Veterans	1,714	1,351	1,356	1,033	874	667	517
Other Grants	119	102	81	59	55	48	N.A.
Other Loans	61	88	157	219	244	248	N.A.
Subtotal	3,777	3,536	2,327	1,531	1,208	963	N.A.
Total Federal Aid	14,161	14,704	13,067	13,690	14,636	15,367	N.A.
State Grant Programs	801	921	1,006	1,106	1,222	1,374	1,506
Institutionally Awarded Aid	2,138	2,323	2,517	2,883	3,173	3,426	N.A.
Total Federal, State, and Institutional Aid	17,101	17,947	16,590	17,679	19,031	20,167	N.A.

Constant 1980 Dollars

	Academic Year						
	1980–81	1981–82	1982–83	1983–84	Estimated 1984–85	Estimated 1985–86	Preliminary 1986–87
Federally Supported Programs							
Generally Available Aid							
Pell Grants	2,271	2,013	2,028	2,263	2,375	2,765	2,631
SEOG	348	316	288	292	291	300	279
SSIG	72	67	61	49	59	58	56
CWS	626	546	516	553	502	525	487
NDSL	661	508	502	552	527	569	573
GSL and PLUS	5,900	6,326	5,618	6,134	6,705	6,690	6,029*
Subtotal	9,879	9,778	9,014	9,842	10,460	10,905	10,053
Specially Directed Aid							
Social Security	1,791	1,747	615	178	27	0	0
Veterans	1,631	1,183	1,138	836	681	505	380
Other Grants	113	89	68	48	43	36	N.A.
Other Loans	58	77	132	177	190	188	N.A.
Subtotal	3,593	3,096	1,953	1,239	941	729	N.A.
Total Federal Aid	13,473	12,873	10,966	11,081	11,401	11,634	N.A.
State Grant Programs	762	806	844	895	952	1,040	1,107
Institutionally Awarded Aid	2,034	2,034	2,112	2,334	2,472	2,594	N.A.
Total Federal, State, and Institutional Aid	16,270	15,736	13,922	14,309	14,825	15,268	N.A.

Notes

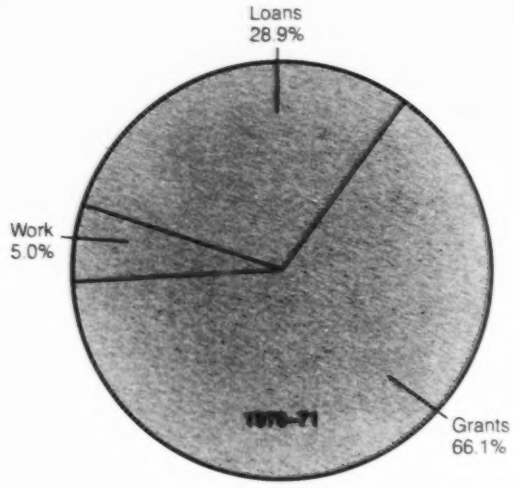
Appropriations figures found on page 3 differ from amounts of aid awarded in the above tables for the following reasons: (1) appropriations in the chart on page 3 have not been adjusted to reflect funds carried backward or forward from one fiscal year to another; (2) appropriations may not equal awards due to administrative costs; (3) appropriations are made on a fiscal year basis while aid awarded is reported by academic year; and (4) all "generally available aid" programs (except GSL) are "forwarded funded," meaning that appropriations for a given fiscal year are intended for use by students during the following academic year.

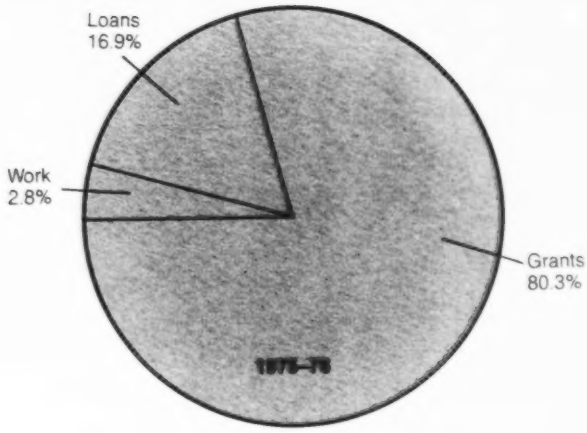
*Because of complex changes in the GSL/PLUS program resulting from the 1986 reauthorization of the Higher Education Act, estimates of GSL/PLUS loan volume for 1986–87 vary widely. The figure used here was calculated by the Washington Office of the College Board and represents a rough mid-point between early projections from the Congressional Budget Office and the U.S. Department of Education.

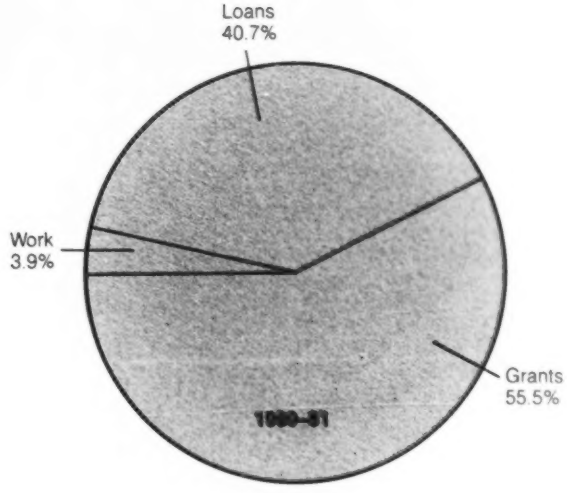
Source

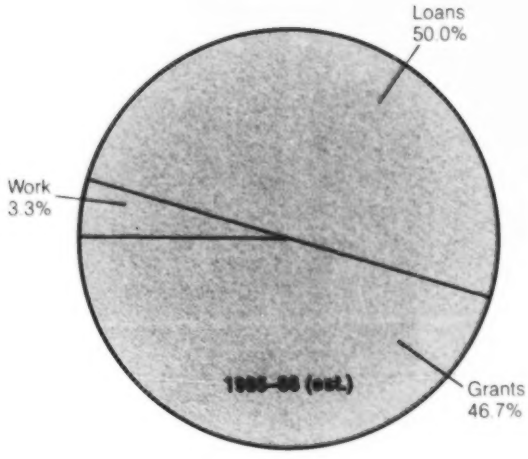
College Board, *Trends in Student Aid: 1980–1986*, 1986, with revised estimates for 1984–85 and 1985–86, and unpublished data for 1986–87.

Grants, Loans, and Work
As A Percentage of Total Aid









Totals in Tables and Charts may not add due to rounding.

Tables and Charts prepared by Jamie Merisotis

The law boosts grant limits as well. In contrast to GSL funding, however, grants rely on annual discretionary appropriations and likely will continue to be squeezed by pressure to reduce federal deficits. The 1980 reauthorization similarly tried to increase grant limits; actual funding has fallen far short of authorized levels. The cycle of unfunded authorizations has begun anew. The reauthorization calls for a $2300 maximum Pell Grant in FY 1987; appropriated funds, however, will only pay for a $2100 maximum.

Another theme of the reauthorization was increased support for non-traditional, older students. More symbolism than major increases in aid appear to be at stake here, however. Part-time students, including those attending less than half-time, must receive a "reasonable proportion" of federal campus-based program dollars (SEOG, CWS, NDSL) if they are counted in determining the institution's federal allocation. Beginning in FY 1989, less-than-half-time students may become eligible for Pell Grants as well if they demonstrate great need. Yet it remains to be seen whether extending small amounts of aid to such students (essentially those taking only one course) will prove practical.

Methods of determining student need for financial aid will change substantially. Growing mistrust between the Congress and the Department of Education led to the inclusion in law of detailed expected family contribution schedules for all aid programs contained in Title IV of the Higher Education Act. For the federal campus-based and GSL programs, the law creates a new "congressional" need analysis, scheduled to become operational in the award year 1988-89. The newly legislated system is patterned after, but will differ in certain key respects from, the so-called Uniform Methodology, most widely used in the distribution of institutional and state student aid funds.

The Higher Education Amendments of 1986 won't be the last word on the design of federal programs for the rest of the decade. The legislation itself calls for creation of a National Commission on Responsibilities for Financing Higher Education to conduct a two-year study. Congress often calls for study commissions that never get appointed or funded, and this one may not materialize. But its authorization suggests Congress felt the need to probe further some of the underlying issues in the sharing of college costs.

Whether or not the commission is established, the extent to which the burden is being shifted to students through loans will continue to concern policy makers. (See summary of policy study on the question, Student Loans: Are They Overburdening a Generation?, later in this report) So, too, will the role of the family and the importance of parents planning and saving well in advance for their children's education.

Various incentives for parents to save have been proposed in recent years. Educational savings accounts or "IRAs for education," allowing families to set aside tax-deferred money or to tap funds already accumulated in Individual Retirement Accounts (IRA) to pay college costs, have been a popular notion, but in the wake of tax reform, chances of their enactment are remote. More attention will likely focus on "tuition futures" and related plans, investment services sponsored by individual institutions (and some states) for parents to prepay tuition years ahead of the time their children will likely matriculate. Many questions and doubts surround such schemes, particularly their tax implications and their effect on college choice.

Politics is the art of the possible, and the Higher Education Amendments of 1986 are probably the best that students and colleges might have hoped for given the gridlock over student aid policy during the past five years. More fundamental review and restructuring of the student aid statutes will have to await another year.

The Federal Outlook

> "I feel a little bit like the fellow that was given the captaincy of the Titanic, after [the iceburg] hit."
>
> Senator Lawton M. Chiles (D-FL)
> New Chairman, Senate Budget Committee

What can we expect in 1987? Budget questions will remain on center stage. The budget proposed by the President for FY 1988 will for the first time exceed one trillion dollars ($1,000,000,000,000!).

To reach the deficit goal established in Gramm-Rudman-Hollings will require huge spending cuts, a significant tax increase, a combination of the two, or adjusting Gramm-Rudman-Hollings targets to a more realistic level. Where to cut and/or how to boost revenues will once again be the central policy questions.

The dimensions of the task may in fact lead to paralysis. The FY 1987 deficit estimate rests around $154 billion, but estimates often understate the deficit, on average by upwards of $30 billion. Add to this an expected $17 billion loss of revenue in FY 1988 as a result of the Tax Reform Act, and the job could become daunting: finding over $90 billion in savings to meet the $108 billion target set in Gramm-Rudman-Hollings.

Despite this gloomy outlook, there is some encouraging news. While annual deficits are not shrinking as fast as many would like, they are shrinking nevertheless. If overall spending only keeps up with inflation, and economic growth continues at a reasonable pace, the deficit will fall on its own, albeit slowly. In fact, doing nothing, an approach termed "gradualism," is becoming a serious policy option.

The gradualist approach, however, is a fragile one. Weak economic growth, a loss of confidence in the American economy among foreign investors, or higher interest rates could reduce revenues, increase spending and further inflate the deficit. In this case, tax increases or massive budget cuts become a possibility, though such deflationary policies in a weak economy are not regarded favorably. With so much pressure against spending cuts or taxes, strong action seems unlikely.

The President is nonetheless expected to propose massive reductions in domestic spending in his FY 1988 budget, intended on paper at least to meet the $108 billion deficit target. These cuts will include many previous proposals as well as a slew of new asset and loan sales. No significant boost in revenues will be included.

In 1986, the President sent an ambulance to pick up the first copy of the budget and take it to Capitol Hill. In 1987 delivery to Congress in a hearse might be more appropriate, given the likely reaction on both sides of the aisle.

Many representatives of education in Washington approach the new year with optimism. There is much talk of building on the 1986 budget victory and reinforcing the nation's commitment to a strong educational system. The need to boost U.S. economic competitiveness abroad is emerging as an important theme in the new Congress and the upcoming presidential campaign. Trade legislation will be a top priority and will probably include a prominent education component.

Shifts in congressional leadership will be an important factor in 1987. The House of Representatives will have a new Speaker, Jim Wright (D-TX). Control of the Senate will shift from the Republicans to the Democrats. The new congressional leaders are expected to move tentatively at first. The Democrats will work to establish a record of success in a few areas with modest initiatives, to enhance the party's reputation for the 1988 election.

Many also believe that the deep controversy over the administration's sale of arms to Iran will weaken the President in his dealings with the Congress and possibly eclipse critical issues on the domestic agenda.

Among important changes in the Senate, Edward Kennedy (D-MA) will chair the Labor and Human Resources Committee. Kennedy is a committed supporter of education, though his focus in the past has been on other issues. On the education subcommittee, Senators Claiborne Pell (D-RI) and Robert Stafford (R-VT), two veteran supporters of education, will reverse roles, with Pell becoming subcommittee chairman and Stafford ranking minority member. In the Appropriations Committee moderate Republican Mark Hatfield (R-OR) will give way to Democrat John Stennis (D-MS), a 40-year veteran of the Senate. The education appropriations subcommittee will shift from Lowell Weicker (R-CT) to Lawton Chiles.

In the House, Representative Ford will leave the chairmanship of the Postsecondary Education Subcommittee. Since he is also chairman of the Post Office and Civil Service Committee, he cannot chair a subcommittee without a special exemption from the Democratic caucus. He received such an exemption for the 99th Congress so that he could guide the Higher Education Act reauthorization to passage. The postsecondary subcommittee will be less active in the next session as attention shifts to reauthorization of the Elementary and Secondary Education Act. Representative Augustus Hawkins (D-CA), who chairs the full Education and Labor Committee, will lead this effort. The committee plans to review all education programs that expire between 1987 and 1989, including compensatory education, basic skills improvement, emergency school aid, adult education, impact aid and bilingual education.

Against the backdrop of the budget, taxes, technical corrections bills, and the next wave of education reauthorizations, a few other developments bear watching in 1987.

Secretary of Education William Bennett will push for the expansion of a small, five million dollar income-contingent loan project that was included in the higher education reauthorization. Under this plan students would take unsubsidized loans and repay them at rates geared to their future earnings. The Secretary considers this plan "the first major advance in federal student aid in the last two decades," while analysts tend to be more skeptical.

The question of national service, and its potential role in student financial assistance, will be examined in 1987 and may become a political issue as we approach the 1988 presidential election. Two Senate committees are expected to air the possibilities, pro and con, of voluntary or mandatory service for high school graduates. Some proposals would tie college tuition benefits to a service obligation.

A third issue education representatives will be closely monitoring is the question of taxing the unrelated business income of non-profit organizations, money gained from activities not directly tied to the organization's purpose. Small businesses have complained that tax-exempt status gives non-profits an unfair competitive edge. College and university travel services, bookstores, and research programs have been singled out as examples. The House Ways and Means Committee plans to hold hearings on this matter.

Developments in the States

> "We are ready to lead the second wave of reform in American public education."
>
> Former Governor Lamar Alexander (R-TN)

Though the new dynamics of deficit reduction have dominated the federal legislative scene with uncertain consequences for education, the pace of activity and interest in supporting education continues to flourish on the state level. State legislative committees focused especially on improvement of the teaching profession and educational governance during 1986. And the nation's governors released a major education report setting the agenda for reform over the next five years.

Within this context, we monitored a number of bills of relevance to the College Board, including proposals for:

- revision of high school graduation and college entrance requirements;
- assessment of college-level academic skills;
- establishment, expansion and revision of statewide skills-testing and academic achievement programs;
- use of test scores as an educational indicator; and
- regulation of admissions tests.

Of primary significance for the College Board, however, was the increase in legislation regulating the use of standardized admissions tests. In both California and New York a coalition of test critics, FairTest, pursued legislation governing disclosure of information about such tests. In New York, a package of six bills sought to extend disclosure provisions of existing state law to professional and occupational licensing exams, and to further regulate the College Board admissions testing program. The College Board testified on these proposals and achieved acceptable modification of three of the bills enacted into law--disclosure of the Test of Standard Written English, public availability of correspondence about flawed test items, and student option to order the question-and-answer service at registration. Action on a fourth bill--to establish an advisory committee to study bias in testing--was postponed.

Legislation in California would have mandated changes in the questions used in the Scholastic Aptitude Test and Achievement Tests, and imposed new reporting and research requirements on test agencies. The bill was withdrawn from consideration.

There are strong indications that testing legislation will again emerge as an issue not only in the states, but also possibly in Congress. FairTest convened an invitational conference in Washington late in 1986 to map a nation-wide campaign to "overhaul standardized tests."

The governors have also emerged as prominent actors in the educational reform movement. In the summer of 1986, the National Governors' Association (NGA) released the results of a year-long education initiative. Led by Governor Alexander and co-chaired by Governors Bill Clinton (D-AR) and Thomas Kean (R-NJ), the governors organized seven task forces that explored a range of current education issues. The College Board submitted written papers to the task forces on New Technology, Teaching, College Quality, and Readiness. Testimony on assessment instruments was presented by George Hanford to the College Quality task force.

There are major implications for the College Board in the governors' report, Time for Results. For example, the Task Force on College Quality recommended the establishment of assessment programs at institutions of higher education, expanded activities for accrediting bodies, and incentives for institutions that establish effective assessment programs. Other recommendations call for the development of indicators that assess the process of schooling; establishment of programs that would permit high school students to attend accredited public, postsecondary degree-granting institutions during their junior and senior years; and the provision of valid and reliable assessment of student performance to students, parents and teachers as a way of correcting deficiencies.

These recommendations will likely become an important part of the education agenda in the states during the next five years, with many of them incorporated in specific state legislation.

Another issue capturing the attention of the governors and state legislatures is the movement to establish college tuition savings or pre-payment plans. Governor James Blanchard (D-MI) took the lead in proposing BEST, Baccalaureate Education System Trust, which was enacted in late 1986 (but will be implemented only if the Internal Revenue Service rules the plan is tax-exempt). A similar proposal is pending in New Jersey, and is likely to be introduced in several other states.

Policy Studies

The Washington Office of the College Board continues to conduct policy studies on educational financing and related issues.

Trends in Student Aid: 1980 to 1986 is the latest publication in our series comprehensively tracking the sources, amounts, and forms of assistance available to postsecondary students. Copies can be ordered for $5 each by sending a check payable to the College Board or an institutional purchase order to College Board Publications, Box 886, New York, NY 10101.

Other research supported by the Washington Office has resulted in two new works:

Sharing the Costs of Higher Education, by D. Bruce Johnstone, examines and contrasts arrangements for financing undergraduate education in the United Kingdom, France, the Federal Republic of Germany, Sweden, and the United States. Mr. Johnstone, president of Buffalo State College in New York, served for several years on the Advisory Panel to the Washington Office.

The book looks at the programs that have evolved in each nation in response to common questions of social policy: Who should go to college? What proportion of the relevant age group? Who pays the cost? Who benefits? Who should pay? What is the appropriate mix of parental contribution, student self-support, and taxpayer subsidy? How can college opportunities be equalized for disadvantaged groups?

As noted in the book's foreword, "Rarely are lessons, models, and mechanisms readily transferable from one country's educational system to another. History, political ideology, social customs, and economic conditions shape the policies and idiosyncratic patterns in each country. But cross-national comparisons can enlighten and influence policy analysis."

Copies can be ordered for $10.95 by sending a check payable to the College Board or an institutional purchase order to College Board Publications, Box 886, New York, New York 10101. Orders should include the book title and item number (# 002784).

Student Loans: Are They Overburdening a Generation?, by Janet S. Hansen, was prepared at the request of the Joint Economic Committee of the Congress. Originally conceived as a convenience for the middle class, student loans have become an important financing feature for students from all income brackets. This transformation, however, has occurred with relatively little attention paid to the impact of borrowing on students and society.

The study concludes that there is a pressing need for better data and research to help separate valid from invalid concerns about high borrowing levels. The data that are available indicate that borrowing has grown dramatically, that students borrow more than they used to, and that more students borrow. As yet, there is little hard evidence that high debt levels are causing serious problems for many students; that educational, career, and personal decisions are being affected by indebtedness; or that the growth in student borrowing poses a threat to the national economy.

Without better data and further study, however, it would be unwise to dismiss these concerns. Some problems with the growing reliance on loans are already evident. Students cannot know what the real burden of their debt will be at the time they make the decision to borrow. Coupled with this uncertainty, heavy emphasis on borrowing may discourage low-income and minority students from pursuing higher education. Further, unlike some European programs, U.S. loans lack insurance to protect student borrowers whose future income might not permit comfortable repayment of the debt.

Copies will be available for distribution in early 1987. (The full text of the paper appeared in the January 7, 1987 issue of The Chronicle of Higher Education.)

Educational Opportunity Center

The Washington Office continues to sponsor the Educational Opportunity Center (EOC), which facilitates postsecondary education and training opportunities for low-income residents of the District of Columbia.

During 1985-86 the Center's counseling staff assisted approximately 3500 residents through campus tours, career planning, financial aid workshops, lifelong learning seminars, the Annual D.C. College Day for high school juniors, and help with college applications. The staff works closely with community agencies, local businesses, institutions of higher education throughout the nation, the local public school system and government in coordinating an effective outreach system.

EOC is supported by grants from the U.S. Department of Education. Funding was renewed for the current year, though at a reduced level as a result of Gramm-Rudman-Hollings.

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update FROM WASHINGTON JANUARY 1987

A REPORT FROM THE WASHINGTON OFFICE OF THE COLLEGE BOARD

Extra

As our Update went to press, the President released his budget proposal for fiscal year (FY) 1988. The House and Senate Budget committees have scheduled prompt hearings. Congressional leaders are already urging the President to compromise and have suggested a "budget summit" to agree on deficit reduction. Given the deadlock on spending priorities and taxes, such a summit may be a long time in coming.

Highlights of the budget as it would affect education are described below. It is not expected, however, that many of these proposals will be enacted.

Taxation

The administration proposes extending social security coverage to the earnings of full-time students; both student and employer would be subject to the social security tax.

The Department of Education and Student Aid

The Administration proposes to rescind $2.5 billion already appropriated for FY 1987 (rescissions in spending must be approved by both houses of Congress within 45 days of the President's request) and to cut an additional $3.0 billion in FY 1988.

	FY'87 Appropriations	Revised Request ($ in billions)	FY'88 Request
Department of Education	$ 19.5	$ 17.0	$ 14.0
Student Aid	8.2	6.9	4.5

The administrations's priorities are to reduce federal costs, focus aid on the neediest, and emphasize elementary and secondary education, where the President proposes to increase some programs while eliminating many others.

For postsecondary students, the administration believes that grant support should be reduced and loans should make up a larger part of financial aid packages. "The Federal Government's role [in student aid] is to help make the investment possible, primarily by providing support for student loans," the budget states. Undersecretary of Education Bruce Carnes adds that "there is no free lunch, someone has to pay the bill."

Pell Grants. Funding for the program would fall from $3.9 billion in FY 1987 to $2.7 billion in FY 1988, squeezing over one million students out of the program. The maximum grant would remain at $2,100 for those still eligible. The budget would eliminate the Pell shortfall carried over from previous years by reprogramming anticipated savings in the GSL program (stemming primarily from lower Treasury bill rates) to Pell grants. The Secretary warns that failure to shift these funds will lead to a "linear-reduction" of grants in award year 1987-1988.

Campus-Based and State Incentive Programs. The budget would immediately terminate Supplemental Educational Opportunity Grants, College Work-Study and State Student Incentive Grants. Secretary Bennett considers these programs "less need-focused," and feels that they "impede vigorous price competition" by providing aid to institutions, not students.

New funding for National Direct Student Loans (NDSL) would also be eliminated, though loans could continue to be made from NDSL revolving funds (with an interest rate of T-bill plus three percent on new NDSLs). To replace NDSL, the Department proposes an expansion of the "income-contingent loan" (ICL) program, to be administered by institutions of higher education. The loans are unsubsidized and repayment would be based on a student's earnings two years after graduation. Repayment could not exceed 15 percent of income in any year. Eligibility would be based on need. Interest rates would equal those in the NDSL program and interest would accrue through the life of the loan. The administration seeks a $600 million capital contribution for ICLs in FY 1988. Under current law, it is a $5 million program limited to ten schools.

Guaranteed Student Loans. Significant changes are proposed in GSL:

- GSL borrower interest rate fixed at average 91-day Treasury bill rate. Beginning with third year of repayment, borrower interest rate set by lender up to prevailing 91-day Treasury rate plus 2.75%.
- Federal in-school interest subsidy is terminated, with borrowers required to pay interest as it accrues or by increasing the size of the loan.
- Origination fee of five percent is eliminated but replaced by a nine percent "guarantee fee" charged to borrowers to cover estimated default and other program costs. For supplemental loans this fee would be two percent.
- The special allowance paid lenders would fall to the average Treasury rate plus 2.75% and the payment would cease after two years of repayment.
- Borrowing limits for GSL would fall to levels existing prior to the 1986 reauthorization of the Higher Education Act. Limits would be removed for all supplemental loans.
- Elimination of all tax-exempt financing of student loans.

Eligibility Changes. Several other proposals would reverse provisions in the 1986 authorization:

- The Department proposes revisions to the new independent student definition, requiring that all students under the age of 30 prove that they have not received parental support or been taken as a tax exemption, and that students below the age of 23 provide documentation of self-sufficiency as well.
- Repeal of aid administrator discretion in adjusting student award levels.
- Requiring that all aid recipients have either a high school diploma or GED diploma.
- Repeal of congressionally mandated limits on verification of data on student aid applications.

TRIO. Support for TRIO (Special Programs for Disadvantaged Students) would be cut in half from over $170 million to $82 million. Talent Search and Educational Opportunity Centers would be completely eliminated.